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UNCLAS SECTION 01 OF 04 SHANGHAI 000273

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NSC FOR LOI  
STATE FOR EAP/CM: HABJAN; OES/PCI: ROSE, AND OES/IHB

E.O. 12958: N/A  
TAGS: [ECON](#) [SOCI](#) [EFIN](#) [TBIO](#) [CH](#)  
SUBJECT: CHINA'S HEALTHCARE REFORM/REBALANCING: THE SHANGHAI  
PERSPECTIVE

REF: BEIJING 1097

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¶1. (SBU) SUMMARY: China released its national roadmap for healthcare reform on April 6, which calls for universal healthcare coverage by 2020 and large investments in key areas. Provinces and municipalities (who will bear a large amount of the implementation costs) are now formulating their own protocols to implement the roadmap set by the central government. Shanghai Government officials, academics, policy advisors, and physicians say that the city has already realized many of the targets set in the national roadmap, but must continue to upgrade services and providing overall public health coverage in the event of a public health emergency. Experts believe that Shanghai needs to focus on medical resource adjustment and integration. Health reform must also seek to balance marketization and nationalization, and experts are divided on which path is more appropriate. Insurance experts believe that the proposed reforms will have minimal impact on the city's comprehensive insurance system. Some doctors are not very optimistic about the health reform, believing that the government will continue to emphasize a reduction in cost to patients rather than consider issues faced by medical professionals. END SUMMARY.

BACKGROUND: NATIONAL PLAN RELEASED, SHANGHAI MOVES TO IMPLEMENT  
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¶2. (U) As reported in reftel, China released its national roadmap for healthcare reform on April 6. This long-awaited, mammoth undertaking has gone through several comment phases and numerous drafts. The plan calls for universal healthcare coverage by 2020. Initial phases will involve large investment (RMB 850 billion or USD 124 billion) in five key areas: 1) basic healthcare insurance, 2) a national essential medicines program, 3) improvement of the rural health care service network, 4) elimination of the gap between urban and rural healthcare, and 5) continuation of public hospital pilot projects. This healthcare plan is being touted widely by officials and the media, and provinces and municipalities (who will bear a large amount of the implementation costs) are now formulating their own protocols to implement the roadmap set by the central government.

13. (U) The Shanghai Development and Reform Commission and the Shanghai Health Bureau (SHB) have organized a consortium including Fudan University, Shanghai Jiao Tong University, the Shanghai Academy of Social Sciences, and the SHB Policy Research Section to develop a "Health System Reform Protocol" for the city. Shanghai is one of China's most economically prosperous and progressive cities and many issues faced by the majority of other parts of the country are not challenges for the city. However, ensuring adequate healthcare for this densely populated megalopolis is still a monumental undertaking. Post has met with SHB officials, academics, policy advisors, and physicians to gauge the Shanghai perspective on overall healthcare reform/rebalancing and the challenges faced by the city.

#### SHANGHAI'S HEALTH CHALLENGES

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14. (SBU) SHB Director XU Jianguang told the Consul General that Shanghai has already realized many of the targets set in the national roadmap, but will continue to improve its system by upgrading and providing better quality services to Shanghai residents. Xu stressed that Shanghai's biggest challenge is not providing routine medical care, but rather, providing overall public health coverage in the event of a public health emergency. Shanghai's population is around 20 million, with approximately one fifth being migrants from all over China. This floating population, not formally registered in Shanghai, poses a particular challenge, noted Xu.

15. (SBU) Shanghai has established a comprehensive public health service network to provide care to residents, but Xu said that it is "very fragile" if overstrained by a widespread disease outbreak. His concerns are further amplified by the health challenges posed by Shanghai's hosting of World Expo 2010. 70 million people are expected to visit Shanghai between May and October next year, through Shanghai's damp spring and hot summer, which can pose challenges, especially with food safety,

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noted Xu.

#### RESOURCE INTEGRATION: LARGE HOSPITALS V. COMMUNITY CENTERS

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16. (SBU) Xu said a main focus of Shanghai's health reform will be medical resource adjustment and integration. People's complaints about the "difficulty in seeing a doctor and the high cost of seeing a doctor -- kan bing nan kan bing gui" -- are most reflected in larger, Class Three hospitals in Shanghai. Actually to see a doctor in a community health service center in Shanghai is very easy, said Xu. (NOTE: Shanghai instituted a tiered hospital system in the early nineties with Class Three (municipal-level) hospitals having the highest level and complexity of care (as certified by the municipal government) and Class Two (district-level) and Class One (community-level) providing more limited services as health service centers and health stations. Shanghai has 227 community health service centers (Class One), among which, 113 located downtown and 114 are located in the suburbs. Additionally, from 2006 to 2008, Shanghai established 1000 standardized village health units in the outskirts of the municipality. On average, each health service center and its attached health stations covers a population from 100,000 to 150,000. END NOTE) Despite the numerous health service centers and health stations, Xu underscored that people still prefer to go to Class Three hospitals even for routine ailments, believing that the highest caliber doctors are concentrated in the bigger "higher-level" hospitals. Xu admitted that doctors working in larger Class Three hospitals likely "develop expertise quicker than those in community level units," but believed that doctors in other Class Two and One hospitals had more than adequate skills to treat most common medical issues. Xu said SHB is working to encourage doctors to work in the community health service centers and stations. It is also considering establishing a consortium to facilitate resource integration and sharing among the different classes of hospitals and service centers. Additionally,

Shanghai will invest RMB 1 billion (USD 147 million) to build eight additional Class Three hospitals around Shanghai with a capacity of 5,000 beds by 2012, bring up the total number of Class Three hospitals to 40.

#### MARKETIZATION OR NATIONALIZATION?

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17. (SBU) Fudan University Health Development Strategy Research Center Director HAO Mo has participated in the formulation of both national and Shanghai health plans developed over the years. Hao said over the past thirty years, China has placed more emphasis on traditional economic growth than developing the service industries such as healthcare. As a result, many service sectors, like healthcare, have had to seek their own solutions for funding and investment. The health sector, according to Hao, has utilized many such market-based methods. He said that Shanghai's (and the national) health reform plan seeks to balance marketization and nationalization. Since the 1990s, the Shanghai government has retained total budgetary control over medical expenses with great success, said Hao. He noted that over the years, the Shanghai's medical expenses have increased in parallel with Shanghai's GDP growth, while during the same period the average medical expenses for China have increased at a much higher rate than the national GDP growth rate. While Hao believes that government control of the healthcare system has benefited Shanghai, he believes that the city's successful practices would not work for all parts of China, especially those without a strong regulatory environment. On the national protocol, Hao said that to be truly effective, the central government should remain focused on short-term, focused targets in order to make the fastest progress. As it stands now, the national plan is extremely broad-based, with few specifics on actual implementation.

18. (SBU) Shanghai Academy of Social Science Researcher LIANG Zhongtang had similar sentiments about the need to balance marketization and nationalization in health reform. While he noted (like Hao) that some of Shanghai's controls on medical expenses have benefited the city, Liang (unlike Hao) believes that the government should release more power to the market which could more efficiently and effectively allocate resources.

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Unfortunately, the trend in the current round of healthcare reform seems to be more government control, said Liang.

#### LITTLE IMPACT ON SHANGHAI'S MEDICAL INSURANCE SYSTEM

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19. (SBU) Provinces and municipalities have different insurance schemes, which complicates any uniformed reform. GONG Bo from the Shanghai Medical Insurance Bureau said that the impact of the proposed health reform on Shanghai's medical insurance will likely be minimal since Shanghai has already established an insurance system which covers the majority of Shanghai's population (those with Shanghai household registries, e.g. non-migrants). For migrants, Gong said that more than 3.8 million have partaken of the comprehensive or synthesis insurance program (an employer-sponsored comprehensive program that bundles health insurance for serious illnesses, pension, unemployment, etc. with more limited coverage than that provided to Shanghai residents). Currently, medical insurance for people who are registered Shanghai residents is classified into four complex subcategories based on area of residence and work unit status. Gong said that while not part of the healthcare reform, Shanghai will likely integrate the subcategories into one comprehensive classification.

#### EXPECTATIONS LOW AMONG SOME DOCTORS

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110. (SBU) Doctors from a district-level (Class II) hospital are not very optimistic about the health reform. Dr. ZHAO Liyu, Chief of the medical office and Dr. CHEN Xu, Chief of Neurology at Shanghai Number Eight People's Hospital said because of the

public perception that doctors are scarce and expensive, , most believe that doctors and hospitals are high income earners. In actuality, most Class Two hospitals incur losses, not profits, said Zhao and Chen, which can be attributed to "policy losses" caused by government regulations over many aspects of hospital management. As an example, they said the fee for routine doctor check-ups has remained stagnant for many years while at the same time the amount of revenue a hospital can derive from medicines it prescribes has decreased as a result of government policies aimed at keeping patient costs low, essentially a double whammy.

As for doctors earning a "healthy" salary, they noted their overnight shift differential has had very little increase over the years -- currently RMB 30 (USD 4.40) per night. Both said that doctors and nurses must be more committed to public health and wellbeing since they cannot earn the lofty incomes that western doctors receive. For the healthcare reform, both Zhao and Chen believed that the government would continue to emphasize a reduction in cost to patients rather than consider issues faced by medical professionals.

#### PUBLIC HEALTH EMERGENCY COMMAND CENTER: ADDRESSING THE WEAKNESS

¶11. (U) In an attempt to address Shanghai's challenge of providing overall public health coverage in the event of a public health emergency, Shanghai formally announced the establishment of the Shanghai Public Health Emergency Command Center (SPHEC) in early February. The center is not only a crisis response command center, but will also aid in the day-to-day monitoring of Shanghai's health and hygiene situation. Over the past three years, Shanghai has invested RMB 100 million (USD 15 million) in the SPHEC, including an Emergent Public Health Incident Information System (EPHIIS) program that targets and tracks 78 types of public health diseases. SPHEC is set in Shanghai Center of Disease Control, with a backup center in the Health Bureau. SHB Director Xu said the EPHIIS program was first tested in April 2008 during the hand-foot-and-mouth disease outbreak. During the September 2008 melamine scandal affecting dairy products, the EPHIIS program enabled a quick response from healthcare officials, including the rapid screening of 100,000 children. EPHIIS and the SPHEC are connected with information command centers of other related municipal agencies.

COMMENT

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¶12. (SBU) National healthcare reform is a tremendous undertaking given the divergent systems and conditions in all parts of the country. Large, prosperous cities like Shanghai have already met or exceeded the level of many national targets for coverage, hospital facilities, number of healthcare professionals, etc., but that still leave much to be done in improving the quality of service to city residents as well as balancing the resource demands on the various levels of hospitals. Shanghai residents, traditionally with more exposure to foreign practices and information, continue to lack confidence in the healthcare system's ability to provide the highest quality of care at the most affordable cost. Until that confidence can be increased (or a balance in resources and expertise achieved), Class Three hospital waiting rooms will continue to be packed by residents seeking routine treatments. Adequate care for migrants also must be factored in to any effective reform.

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